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THE DISTRIBUTION OF CAPITAL IN PRIVATE HANDS IN 1936–38 AND 1946–47

PART II

THE DISTRIBUTION OF CAPITAL ACCORDING TO AMOUNT OF CAPITAL

The calculation of the distribution of property in private hands according to the amount of property held constitutes an essential counter-part of the estimates made in Part I. An attempt is made here to find what proportions of property are held, for example, by persons possessing more than £1,000 or more than £10,000. The estimates are based on the same principle as that followed in Part I, that is, the dead are used as a random sample of the living. The method followed has been to multiply the value of estates passing at death in each age and sex group by the reciprocals of the appropriate general mortality rates.

Estate duty is levied on the market value of the estate—on all movable property such as goods, furniture, stocks and shares, even if situated in foreign countries, but the value of lands, house and immovable property outside Great Britain is excluded. Gifts *inter-vivos* pay estate duty if made within five years of the death of the deceased.[1] The estates of persons who die in the armed forces are exempt from estate duty, and in view of this consideration the reciprocals of the mortality rates of the civilian population were used as multipliers in 1946–47. An important exemption from estate duty relates to settled property.[2] It is possible to make an estimate of the total value of settled property[3] but not of its distribution. Such property is likely to be left by older people with large estates and especially by females. The estimates of the amount of capital in the higher capital groups are, therefore, likely to be undervalued, but the relative distribution of capital is probably little affected.

Campion[4] considered that every estate ought ideally to be valued without any additions or deductions due to the death of the owner of the estate. For example, £1,000 may be paid by an insurance company on the death of a person aged 25. Yet such a person never had the £1,000 in his possession and

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[1] Finance Act, 1946. There are certain exemptions : gifts made for public or charitable purposes, gifts made in consideration of marriage, reasonable gifts shown to be part of normal expenditure and gifts in the aggregate not exceeding £100 in value to any donee.

[2] ' Where Estate Duty has been paid in respect of settled property, Estate Duty is not again payable on the death, during the continuance of the settlement, of the husband or wife of the person on whose death the Estate Duty was paid, unless such husband or wife was competent to dispose of the property.' Ninetieth Report of the Commissioners of H.M. Inland Revenue. Cmd. 7362, p. 26.

[3] *Vide infra* Appendix 2.

[4] Campion, *Public and Private Property in G.B.*, Oxford, 1939, p. 17.

Campion considered that to multiply £1,000 by the reciprocal of the mortality rates gives too high an estimate of the capital in the possession of persons aged 25. This view can be questioned. Is not the possession of a policy a form of capital ? The possession of a policy puts a person in a similar position to a man of capital in many ways. He may for example assume risks and obligations which he would otherwise hesitate to assume and may raise a loan on the policy.[1] It is true that such capital cannot be touched, but nor could capital kept in trust. Morever, after one or two years a policy has a surrender value and this is clearly capital. No deductions ought to be made for funeral expenses or for gifts for national and charitable purposes distributed at death. Debts to other persons are rightly deducted.

Funeral and other expenses at death and gifts for national and charitable purposes amounted to approximately £2½–£3 millions a year in 1936–38 and £3–£4 millions in 1946–47. No details of the age and sex distribution of these expenses are given so that the estimates of the distribution of private property do not give the absolute amount of capital in each capital group, both on account of these expenses and on account of the value of settled property. No allowance has been made in the estimates for evasion or for under-valuation which may be possible in small estates.[2]

The amount of Capital owned by Persons Possessing Estates of more than £100 in 1936-38 *and in* 1946-47

In 1936-38, the value of capital owned by males possessing estates of more than £100 is estimated at not less than £10,000 millions and not more than £10,900 millions in England and Wales.

TABLE I

Amount of Capital owned by Males Possessing Estates of more than £100 in 1936–38. England and Wales

(Estimated on basis of general mortality rates)

£ million

	1936	1937	1938
Total over £100	10080	10184	10870
£100—£1,000	1501	1256	1190
£1,000—£5,000	1677	1888	1735
£5,000—£10,000 ...	960	1076	1005
£10,000—£25,000 ...	1538	1692	1535
£25,000—£100,000 ...	2178	2049	2299
Over £100,000	2226	2223	3106

In these years approximately 45 per cent of the total capital was owned by males possessing more than £25,000.

The amount of capital owned by males in Scotland possessing estates of more than £100 is estimated at a little over £1,000 million in 1936–38.

In Scotland approximately 37 per cent of the total capital was owned by males possessing more than £25,000.

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[1] At least to the extent of its surrender value.

[2] The error in the modified 1938 estimates for the total value of estates was larger than for the total number of estates · [illegible] per cent for males and 13 per cent for females. See Part I Appendix.

TABLE II

Amount of Capital owned by Males Possessing Estates of more than £100 in 1936–38 in Scotland

(Estimated on basis of general mortality rates)

£ millions

	1936	1937	1938
Total over £100	1029	1044	1033
£100—£1,000	123	121	116
£1,000—£5,000	244	252	218
£5,000—£10,000 ...	122	119	102
£10,000—£25,000 ...	174	168	167
£25,000—£100,000 ...	219	212	213
Over £100,000	147	172	217

In 1946–47, the value of capital owned by males possessing estates of more than £100 is estimated at not less than £13,450 millions and not more than £16,200 millions in England and Wales. In these years approximately 39 per cent of the total capital was owned by males possessing more than £25,000. Table III shows the amount of capital possessed by males in each capital group.

In Scotland approximately £1,480–£1,810 millions was owned by males with estates of more than £100. Thirty-nine per cent of this capital was owned by males with estates of more than £25,000. This percentage is little changed from that of 1936–38. Table IV shows the amount of capital possessed by males in each capital group.

The amount of capital owned by females in England and Wales possessing

TABLE III

Amount of Capital Owned by Males Possessing Estates of more than £100 in 1946 and 1947

(Estimated on the basis of general mortality rates)

England and Wales (£ million)

	1946	*1947*
Total over £100	13449	16196
£100—£1,000	1699	1600
£1,000—£5,000	2951	3143
£5000—£10,000	1406	1727
£10,000—£25,000	2242	2711
£25,000—£100,000	2687	3311
Over £100,000	2464	3704

TABLE IV

Amount of Capital Owned by Males Possessing Estates of more than £100 in 1946 and 1947

Scotland (£ million)

	1946	*1947*
Total over £100	1418	1811
£100—£1,000	124	253
£1,000—£5,000...	317	383
£5,000—£10,000	166	184
£10,000—£25,000	239	288
£25,000—£100,000	316	372
Over £100,000	256	331

estates of more than £100 is estimated at £6,145–£6,830 million in the years 1936–1938. Approximately 38 per cent of the total capital was owned by females with more than £25,000 capital (see Table V). In Scotland, the amount of capital owned by females possessing estates of more than £100 in the years 1936–1938 was not less than £736 millions and may have been as much as £1,313 millions. It appears that approximately 62 per cent of the total capital was owned by females with more than £25,000 (see Table VI), but, in a small country such as Scotland the amount of capital left in the higher groups varies greatly from year to year and this percentage must be accepted with caution.

TABLE V

Amount of Capital Owned by Females Possessing Estates of more than £100 in 1936–38 in England and Wales

(Estimated on basis of general mortality rates)

£ million

	1936	1937	1938
Total over £100	6145	6108	6830
£100—£1,000	787	657	1045
£1,000—£5,000	1259	1034	1577
£5,000—£10,000	789	608	933
£10,000—£25,000	1102	833	1185
£25,000—£100,000 ...	1354	1200	1324
Over £100,000	854	1776	766

TABLE VI

Amount of Capital Owned by Females Possessing Estates of more than £100 in 1936–38 in Scotland

(Estimated on the basis of general mortality rates)

£ million

	1936	1937	1938
Total over £100	973	1313	736
£100—£1,000	59	63	54
£1,000—£5,000	109	126	150
£5,000—£10,000	58	69	79
£10,000—£25,000	94	117	113
£25,000—£100,000	130	166	131
Over £100,000[1] ...	523	772	210

[1] The estimates of the amount of capital in this group are liable to violent fluctuations. The net capital value of estates left in the higher groups fluctuates greatly from year to year—from £10 million in 1937 to £2.7 million in 1938 in the over £100,000 group. An average of several years would provide a more correct calculation.

Tables VII and VIII show the amount of capital possessed by females in each capital group in England and Wales and Scotland, in 1946–47. The amount of capital owned by females in England and Wales with more than £100 is estimated at £8,091–£9,922 millions, of which 29 per cent was owned by females with more than £25,000 (in 1936–38, 38 per cent was owned by females with more than £25,000). In Scotland, the amount of capital owned by females with more than £100 is estimated at £1,100–£1,210 millions; of which 40 per cent was owned by females with more than £25,000. The corresponding percentage in 1936–38 was 62 per cent.

Table VII. *Amount of Capital Owned by Females Possessing Estates of more than £100 in 1946 and 1947*
(Estimated on the basis of general mortality rates)
England and Wales (£ million)

	1946	*1947*
Total over £100	8091	9922
£100—£1,000	1150	1119
£1,000—£5,000...	2121	2467
£5,000—£10,000	1068	1417
£10,000—£25,000	1447	1806
£25,000—£100,000	1585	1983
Over £100,000	720	1130

Table VIII. *Amount of Capital Owned by Females Possessing Estates of more than £100 in 1946 and 1947*
Scotland (£ million)

	1946	*1947*
Total over £100	1137	1206
£100—£1000	116	108
£1,000—£5,000...	224	272
£5,000—£10,000	133	151
£10,000—£25,000	181	228
£25,000—£100,000	193	245
Over £100,000	290	202

For reasons stated before[1] no analysis has been made on the basis of social mortality rates, but, for comparison, the mean of the differences used by Campion has been applied to the general estate multiplier. The results are shown in Table IX. Again, it is probable that, as with the calculation of the total number of estates, the true total of the capital value of estates of more than £100 owned by persons in the periods under review lies somewhere between the two totals.

Table IX
Comparison of Total Value of Estates of more than £100 using Social Mortality Rates and General Mortality Rates
£ million

	1936			1937			1938		
	Males	Females	Total	Males	Females	Total	Males	Females	Total
On basis of Social	10698	6534	17232	11031	6916	17947	11364	7298	18662
Mortality Rates	10080	6145	16225	10184	6108	16292	10870	6830	17700
On basis of General Mortality Rates Mean	10389	6339	16728	10607	6512	17119	11117	7064	18181

	1946			1947		
	Males	Females	Total	Males	Females	Total
On basis of Social	14469	8706	23175	17420	10621	28041
Mortality Rates	13449	8091	21540	16196	9922	26118
On basis of General Mortality Rates Mean	13959	8398	22357	16808	10271	27079

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[1] *Vide.* Part 1, p. 343

The Amount of Capital Owned by Persons Possessing £100 or less in 1936–38 and in 1946–47

The exact amount of capital owned by persons possessing £100 or less is difficult to estimate. Daniels and Campion[1] considered that the former method, of assuming that the bulk of the funds of friendly societies and provident institutions belong to persons with £100 or less, even if a safe method before the 1914–18 war, was no longer so in the 1920's. After a consideration of the tentative results reached by Sir Henry Clay[2] and earlier by Sir Edward Brabook,[3] Daniels and Campion made estimates of an average of £25–£45 for the amount of capital per person in 1911–1913 and of £30–£50 per person in 1924–1930.

The number of people with small estates was larger in 1936–38 than in 1924–30 and the value of property held by such persons increased. It may, therefore, be assumed that the value of capital of persons with less than £100 similarly increased. Certain estates of less than £100 are valued each year by the Inland Revenue and the average value of such estates in 1936–38 was £60. The Inland Revenue dealt with these estates because for some reason a grant of Probate was necessary, that is, because there was real property. It is likely, therefore, that these estates were among the more prosperous estates of less than £100 and £60 has been considered to be an upper limit and £35 a lower limit.

Bray[4] in considering the amount of capital of dependants with less than £50, assumed a figure of £20 per head. This figure would be too low for an average sum per head of persons with less than £100, but may well be a more correct figure for the average capital per head of persons aged 15–25, than the lower figure in the averages used by Daniels and Campion. Thus an average figure of £35–£60 capital per head has been used for persons aged 25 and over, and the figure of £20 per head for persons aged 15–25.

In England and Wales, persons with less than £100 capital over the age of 25 are estimated to have owned in 1936–38 £897–£925 million, while those between the ages of 15 and 25 are assumed to have owned £125 million. The total of such capital was, therefore, £1,022–£1,050 million.

In Scotland, the capital of persons 25 and over is assumed to have been £103–£106 million, and that of persons aged 15–25, £16 million. The total of such capital, in Scotland, was thus £119–£122 million.

These estimates are not strictly comparable with the estimates of capital of persons with more than £100 since, as already mentioned, the latter do not include all the capital of persons with more than £100 (*i.e.* settled property, funeral expenses, excluded).

The amount of capital possessed by persons in England and Wales with less than £100 in 1946–47 is considered to be approximately £990–£1,032 millions. This calculation assumes that the average holding of such persons was about £60. This figure, which is the same as the upper limit of the estimated average holding in 1936–38, is based on an analysis of household furniture[1] and a consideration of the probable market-price[2] of these possessions plus an allowance for some cash savings.

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[1] Daniels and Campion, *The Distribution of National Capital*, Manchester 1936, p. 48.

[2] Clay. Distribution of Capital in England and Wales. (Reprint from proceedings of Manchester Statistical Society) 1924–25. Clay. Property and Inheritance (New Way Series, *Daily News, Ltd*).

[3] Cited Daniels and Campion, *op. cit.*, p. 49.

[4] Bray. *Small Savings*. Economic Journal, 1940, p. 196.

The Distribution of Capital in 1936–38 *and* 1946–47

Tables X and XI show the amount of capital in each capital group in 1936–38 and 1946–47 and also the distribution of capital in each capital group for males and females separately for England and Wales. Tables XII and XIII show similar data for Scotland. The increase in equality revealed appears to be slight, but it is noticeable that the amount of capital owned in the over £25,000 group decreased from 40 per cent of the total to 35 per cent and that the capital owned in the £1,000–£10,000 group increased from 27 per cent to 32 per cent of the total.

The distribution of capital is different for males than for females. More capital is owned by women in the lower capital group than in the case of men. Tables X and XI show that in 1936–38, 38 per cent of the total capital was owned in England and Wales by women with less than £5,000 compared with 31 per cent for men. These percentages had changed to 42 per cent and 33 per cent in 1946–47. The higher percentages reflect the greater equality of distribution in the latter period.

Tables XII and XIII show similar movements for Scotland.

The Amount of Capital in each Capital Group in 1946–47, 1936–38, 1924–30 *and* 1911–18

The amount of capital in each capital group can now be compared. The proportion of the national capital passing each year is likely to vary more widely from year to year than the proportion of persons possessing capital over £100, and it is therefore more necessary to take an average for a number of years than it was when comparing the number of persons in each capital group. An average of a number of years is, nevertheless, more dangerous here owing to possible differences in the movement of values of different kinds of capital. Price movements took place in each of the periods under consideration and figures for individual years are not therefore exactly comparable with one another.

The distribution of capital among persons aged 25 and over can be compared for England and Wales from 1911 to 1947.[3] Table XIV shows the increased equality in the distribution of capital since 1911. In 1946–47 the amount of capital of persons aged 25 and over was not less than £21,936

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[1] 'Furniture.' The Social Survey. New Series No. 63, May 1945.

[2] The General Furniture (Maximum Price and Changes and Miscellaneous Provisions Order. July 4, 1944. S.R. O. Nos. 765-8.

[3] Estimates for 1911–13, and 1924–30 were made by Daniels and Campion.

TABLE X

Amount of Capital in each Capital Group in 1936–1938, England and Wales
(Figures relate to persons over 25)

£ million

	Persons		Males		Females	
	Amount	*Percentage*	*Amount*	*Percentage*	*Amount*	*Percentage*
£100 or less	897—925	5.91— 4.66	398— 406	4.11— 3.49	499— 519	9.07— 6.30
£100—£1,000	1733— 2452	11.42— 12.35	1110— 1451	11.36— 12.49	633—1001	11.51— 12.16
£1,000—£5,000	2667— 3394	17.57— 17.09	1649— 1839	17.03— 15.83	1018—1555	18.51— 18.88
£5,000—£10,000	1532— 1958	10.09— 9.86	932— 1048	9.63— 9.02	600— 910	10.91— 11.05
£10,000—£25,000	2291— 2780	15.09— 14.00	1471— 1622	15.19— 13.96	820—1158	14.91— 14.06
£25,000—£100,000	3124— 3474	20.58— 17.50	1961— 2148	20.26— 18.49	1163—1326	21.15— 16.10
Over £100,000	1936— 4871	19.34— 24.53	2170— 3105	22.42— 26.72	766—1766	13.93— 21.45
Total	15180—19854	100.00—100.00	9681—11619	100.00—100.00	5499—8235	100.00—100.00
Range of error.	Maximum and Minimum figures are given.					
Mean						
£100 or less	911	5.29	401	3.84	510	7.55
£100—£1,000	2042	11.87	1242	11.88	800	11.84
£1,000—£5,000	2991.5	17.38	1721.5	16.47	2170	18.80
£5,000—£10,000	1753	10.19	987.5	9.45	765.5	11.33
£10,000—£25,000	2548	14.81	1524	14.85	1024	15.16
£25,000—£100,000	3337	19.39	2082	19.92	1255	18.57
Over £100,000	3625	21.07	2493	23.85	1132	16.75
Total	17207.5	100.00	10451.0	100.00	6756.5	100.00

TABLE XI

Amount of Capital in Each Capital Group in 1946 and 1947
(Figures relate to persons over 25)
England and Wales (£ million)

	Persons		*Males*		*Females*	
	Amount	*Percentage*	*Amount*	*Percentage*	*Amount*	*Percentage*
£100 or less	991— 1032	4.6— 3.8	417— 427	3.1— 2.6	574— 605	6.7— 5.8
£100—£1,000	2593— 2748	12.0— 10.3	1509— 1627	11.3— 10.0	1083— 1121	12.7— 10.8
£1,000—£5,000	4993— 5502	22.7— 20.6	2903— 3068	21.7— 18.9	2090— 2434	24.5— 23.4
£5,000—£10,000	2435— 3083	11.1— 11.5	1369— 1684	10.2— 10.3	1066— 1399	12.5— 13.5
£10,000—£25,000	3588— 4396	16.3— 16.4	2151— 2615	16.0— 16.1	1437— 1781	16.9— 17.1
£25,000—£100,000	4213— 5107	19.2— 19.2	2652— 3180	19.8— 19.5	1561— 1927	18.3— 18.5
Over £100,000	3123— 4800	14.1— 18.2	2404— 3670	17.9— 22.6	719— 1130	8.4— 10.9
Total	21936—26668	100.0—100.0	13405—16271	100.0—100.0	8530—10397	100.0—100.0
Range of error.	Maximum and Minimum figures are shown.					
Mean						
£100 or less	1011	4.16	422	2.84	589	6.22
£100—£1,000	2670	10.99	1568	10.57	1102	11.65
£1,000—£5,000	5247	21.59	2985	20.12	2262	23.90
£5,000—£10 000	2758	11.35	1526	10.29	1232	13.02
£10,000—£25,000	3992	16.43	2383	16.06	1609	17.00
£25,000—£100,000	4660	19.18	2916	19.65	1744	18.43
Over £100,000	3962	16.30	3037	20.47	925	9.77
Total	24300	100.00	14837	100.00	9463	100.00

TABLE XII

SCOTLAND

Amount of Capital in each Capital Group. (1936–1938)
(Figures relate to persons over 25)
£ million

	Persons		Males		Females	
	Amount	*Percentage*	*Amount*	*Percentage*	*Amount*	*Percentage*
£100 or less	103— 106	6.10— 4.19	47— 48	4.78— 4.26	58— 59	7.93— 4.06
£100—£1,000	159— 173	9.40— 6.84	106— 112	10.78— 9.94	53— 61	7.51— 4.35
£1,000—£5,000	317— 391	18.77— 15.45	210— 243	21.39— 21.56	107— 148	15.16— 10.55
£5,000—£10,000	156— 197	9.24— 7.78	98— 118	9.97— 10.47	58— 79	8.22— 5.63
£10,000—£25,000	256— 290	15.16— 11.46	163— 170	16.58— 15.08	93— 120	13.17— 8.55
£25,000—£100,000	342— 385	20.25— 15.20	212— 219	21.57— 19.43	130— 166	18.41— 11.83
Over £100,000	356— 989	21.08— 39.08	147— 217	14.96— 19.26	209— 772	29.60— 55.02
Total	1691—2533	100.00—100.00	983—1127	100.00—100.00	708—1405	100.00—100.00
Range of error.	Maximum and Minimum figures are shown.					
Mean						
£100 or less	104.5	4.96	46	4.37	58.5	5.55
£100—£1,000	166	7.88	109	10.36	57	5.41
£1,000—£5,000	356	16.91	229	21.77	127	12.06
£5,000—£10,000	178	8.45	110	10.46	68	6.45
£10,000—£25,000	265	12.59	165	15.68	100	9.49
£25,000—£10,0000	357	16.96	215	20.44	142	13.48
Over £100,000	679	32.25	178	16.92	501	47.56
Total	2105.5	100.00	1052	100.00	1053.5	100.00

TABLE XIII

Amount of Capital in each Capital Group in 1946 and 1947
(Figures relate to persons over 25)
Scotland (£ million)

	Persons		Males		Females	
	Amount	*Percentage*	*Amount*	*Percentage*	*Amount*	*Percentage*
£100 or less	118— 125	4.66— 3.93	50— 54	3.46— 3.94	68— 71	6.38— 5.27
£100—£1,000	222— 357	8.77— 11.22	117— 243	8.10— 13.24	105— 114	9.85— 8.47
£1,000—£5,000	531— 641	20.97— 20.14	310— 372	21.44— 20.26	221— 269	20.73— 20.00
£5,000—£10,000	295— 329	11.65— 10.34	163— 178	11.20— 9.70	113— 151	10.60— 11.22
£10,000—£25,000	399— 492	15.76— 15.46	235— 286	16.25— 15.58	164— 206	15.38— 15.30
£25,000—£100,000	509— 617	20.10— 19.39	316— 372	21.85— 20.26	193— 245	18.11— 18.20
Over £100,000	548— 621	18.09— 19.52	256— 331	17.70— 18.02	202— 290	18.96— 21.54
Total	2532—3182	100.00—100.00	1446—1836	100.00—100.00	1055—1346	100.00—100.00
Range of error.	Maximum and Minimum figures are shown.					
Mean						
£100 or less	121.5	4.26	52	3.18	69.5	5.72
£100—£1,000	288	10.10	179.5	10.96	109	8.97
£1,000—£5,000	585.2	20.52	340.7	20.80	244.5	20.12
£5,000—£10,000	312	10.94	170	10.38	142	11.69
£10,000—£25,000	443.5	15.55	258.5	15.78	185	15.23
£25,000—£100,000	563	19.74	344	21.01	219	18.02
Over £100,000	539	18.90	293	17.89	246	20.25
Total	2852.2	100.00	1637.7	100.00	1215.0	100.00

TABLE XIV

Amount of Capital in each Capital Group in 1946–47, 1936–38, 1924–30 and 1911–13
ENGLAND AND WALES
(Figures relate to persons aged 25 and over)

	1946–1947		*1936–1938*		*1924–1930*		*1911–1913*	
	Amount £ million	*Percentage*	*Amount* £ million	*Percentage*	*Amount* £ million	*Percentage*	*Amount* £ million	*Percentage*
Total	21936—26668	100.00	15180—19854	100.00	13680—15150	100.00	6003—7005	100.00
£100 or less	991—1032	4.6— 3.8	897— 925	5.91— 4.66	500— 900	3.6— 6.1	400— 700	6.0—11.1
£100—£1,000	2593—2748	12.0—10.3	1733—2452	11.42—12.35	1471—1632	10.4—11.1	624— 721	10.0—10.4
£1,000—£5,000	4993—5502	22.7—20.6	2667—3394	17.57—17.09	2393—2610	17.0—17.7	963—1099	15.7—16.0
£5,000—£10,000	2435—3083	11.1—11.5	1532—1958	10.09— 9.86	1405—1519	10.0—10.3	598— 677	9.7—10.0
£10,000—£25,000	3588—4396	16.3—16.4	2291—2780	15.09—14.00	2023—2177	14.4—14.8	875— 984	14.0—14.6
£25,000—£100,000	4213—5107	19.2—19.2	3124—3474	20.58—17.50	2625—2813	18.6—19.1	1170—1308	18.7—19.5
Over £100,000	3123—4800	14.1—18.2	2936—4871	19.34—24.53	3266—3504	23.2—23.8	1373—1516	21.6—22.9

TABLE XIVB

Mean Amount of Capital in each Capital Group, 1946–47, 1936–38, 1924–30 and 1911–13
ENGLAND AND WALES

£ million

	1946–47		*1936–38*		*1924–30*		*1911–13*	
	Amount	*Percentage*	*Amount*	*Percentage*	*Amount*	*Percentage*	*Amount*	*Percentage*
£100 or less	1011	4.16	911	5.29	500	3.6	400	6.0
£100—£1,000	2670	10.99	2042	11.87	1471	10.4	624	10.0
£1,000—£5,000	5247	21.59	2992	17.38	2393	17.0	963	15.7
£5,000—£10,000	2758	11.35	1753	10.19	1405	10.0	598	9.7
£10,000—£25,000	3992	16.43	2548	14.81	2023	14.4	875	14.0
£25,000—£100,000	4660	19.18	3337	19.39	2625	18.6	1170	18.7
Over £100,000	3962	16.30	3625	21.07	3266	23.2	1373	21.6
Total	24300	100.00	17208	100.00	13680	100.0	6008	100.0

Figures are based on General Mortality Rates and relate to persons aged 25 and over.

TABLE XV

The Distribution of Capital in 1911–13, 1924–30, 1936–38 and 1946–47
(Figures relate to persons aged 25 and over)

	Number of Persons		*Amount of Capital*	
	Number (*00's*)	*Cumulative Percentage*	*Amount £ million*	*Cumulative Percentage*
1946–47				
Total	27870	100.00—100.00	22132—26472	100.00—100.00
More than £100	10642—11386	38.1 — 40.9	21100—25481	95.3 — 96.2
£1,000	3140— 3302	11.2 — 11.8	18352—22888	82.9 — 86.4
£5,000	704— 807	2.5 — 2.8	13359—17386	60.3 — 65.6
£10,000	349— 396	1.2 — 1.42	10924—14303	49.3 — 54.0
£25,000	114— 129	.4 — .4	7236— 9907	33.1 — 37.4
£100,000	15— 17	.05— .06	3123— 4800	14.1 — 18.1
1936–38				
Total	25605	100.00—100.00	15180—19854	100.00—100.00
More than £100	5915— 6947	23.10— 27.13	14283—18929	94.09— 94.84
£1,000	1679— 1893	6.56— 7.30	12550—16477	82.67— 82.99
£5,000	439— 507	1.71— 1.98	9883—13083	65.11— 65.90
£10,000	221— 258	0.86— 1.01	8351—11125	55.01— 56.03
£25,000	75— 95	0.29— 0.37	6060— 8345	39.92— 42.03
£100,000	11— 17	0.04— 0.07	2936— 4871	19.34— 24.53
1924–30				
Total	22336	100.00—100.00	13680—15150	100.00—100.00
More than £100	4774— 5283	21.3 — 23.7	13183—14255	93.6 — 96.8
£1,000	1306— 1421	5.8 — 6.4	11712—12623	83.2 — 85.7
£5,000	357— 386	1.6 — 1.8	9319—10013	66.2 — 68.0
£10,000	180— 194	.8 — .9	7914— 8494	56.2 — 57.7
£25,000	64— 69	.2 — .3	5891— 6317	41.8 — 42.9
£100,000	10— 11	.04— .05	3266— 3504	23.2 — 23.9
1911–13				
Total	18745	100.00—100.00	6008— 7005	100.00—100.00
More than £100	2196— 2529	11.6 —13 .4	5608— 6305	89.7 — 93.4
£1,000	558— 635	2.9 — 3.3	4987— 5584	79.7 — 83.0
£5,000	161— 180	.8 — .9	4021— 4485	64.0 — 67.0
£10,000	84— 94	.4	3423— 3808	54.3 — 57.0
£25,000	30— 34	.1	2548— 2824	40.3 — 42.4
£100,000	5— 6	.03	1378— 1516	21.6— 22.9

TABLE XVB. *The Distribution of Capital in 1931–13, 1924–30, 1936–38 and 1946–47*
(Figures relate to persons aged 25 and over)

	Number of Persons		*Amount of Capital*	
	Number (000's)	*Cumulative Percentage*	*Amount £ million*	*Cumulative Percentage*
1946–47				
Total	27804	100.00	24300	100.00
More than £100	10948	39.38	23291	95.85
£1,000	3221	11.58	20621	84.26
£5,000	756	2.72	15374	63.27
£10,000	373	1.34	12616	51.92
£25,000	122	0.44	8624	35.49
£100,000	16	0.06	3964	16.31
1936–38				
Total	25502	100.00	17208	100.00
More than £100	6312	24.75	16297	94.71
£1,000	1764	6.92	14255	82.84
£5,000	470	1.84	11263	65.45
£10,000	239	0.94	9510	55.26
£25,000	83	0.33	6962	40.46
£100,000	13	0.05	3625	21.07
1924–30				
Total	22336	100.00	13680	100.00
More than £100	4774	21.4	13183	96.4
£1000	1306	5.8	11712	85.6
£5,000	357	1.6	9319	68.1
£10,000	180	0.8	7914	57.9
£25,000	64	0.3	5891	43.1
£100,000	10	0.04	3266	23.9
1911–13				
Total	18745	100.00	6008	100.00
More than £100	2196	11.7	5608	93.3
£1,000	558	3.0	4987	83.0
£5,000	161	0,9	4021	66.9
£10,000	84	0.4	3423	57.0
£25,000	30	0.2	2548	42.4
£100,000	5	0.03	1378	22.9

Figures are means of each capital group and are based on General Mortality Rates.

millions and not more than £26,668 million; of this 96 per cent was owned by persons with more than £100. In 1936–38, the amount of capital was £15,000–£20,000 million and people with more than £100 owned 94½–95 per cent. The amount of capital was £13½–£15¼ thousand million in 1924–30 and was £6–£7 thousand million in 1911–13. Persons possessing more than £100 owned 94–96½ per cent in 1924–30 and 89–94 per cent in 1911–13. In each period more than half of the total capital was owned by persons with more than £5,000 each. For the years 1924–30 and 1911–13, the higher totals in each of the capital groups over £100 have been calculated using social mortality rates, and the lower totals using general mortality rates. As argued before, this may not affect the comparability between the four periods.

The Changing Distribution of Capital

The number of persons and the amount of capital in each capital group have been estimated previously and these calculations can now be brought together.

It is possible to compare fully the distribution of capital in 1911–13, 1924–30, 1936–38, and 1946–47 for England and Wales. This is shown in Table XV, and for 1936-38 and 1946-47 in the Lorenz diagram. The distribution of capital had gradually become more equal during these years. One per cent of the persons aged 25 and over in England and Wales owned 50 per cent of the total capital in 1946–47; in 1936–38 the percentage was 55; in 1924–30 1 per cent of the persons owned 60 per cent of the total capital; while in 1911–13, 1 per cent of the persons owned 70 per cent of the total capital. The scale of wealth had changed from that of 1911–13; there were more people in each of the groups over £100. Inequality had lessened by 1946–47 but capital was still unequally distributed. Ten per cent of the total number of persons aged 25 and over owned 80 per cent of the total capital in this period while sixty-one per cent of the adult population owned 5 per cent of the total capital in 1946–47. The 1936–38 corresponding percentages were 10 per cent owned 85 per cent, while 74 per cent owned 5 per cent.

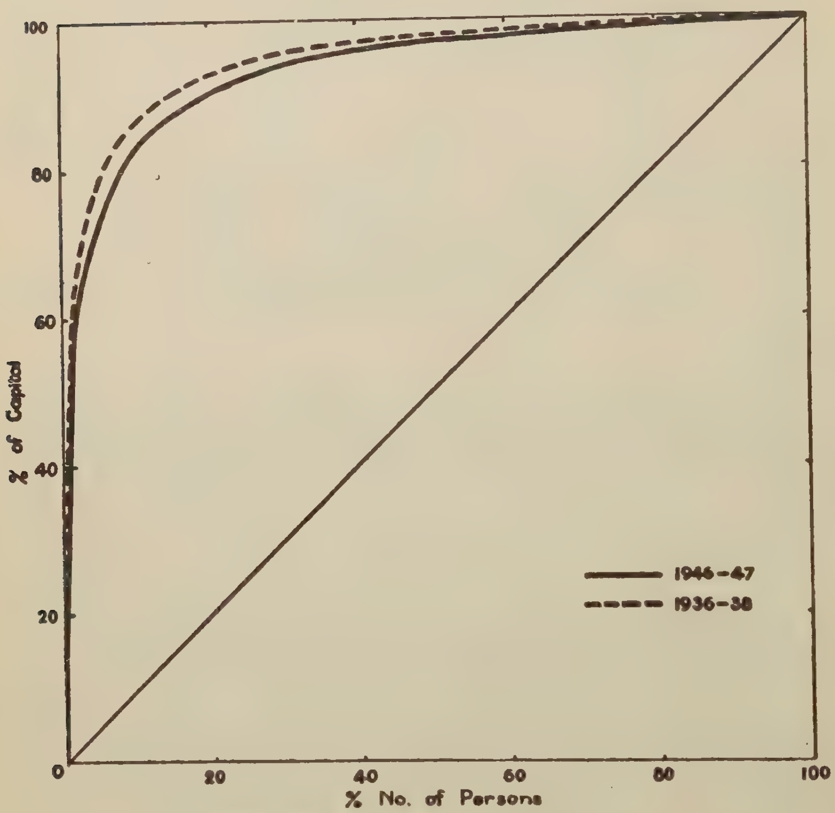
It can be seen from Table XV that there has been a four-fold increase since 1911 in the amount of capital owned by persons with more than £100 while a five-fold increase has taken place in the number of capital owners. It follows, therefore, that less must be owned by each one. Table XVI shows the estimated mean capital in each capital group. It appears that the mean capital in each group diminished after 1930. Thus, as more persons possessed capital, less was owned by each one. It has been noticed in national income studies[1] that a reduction in the average purchasing power of the higher income groups is a usual sign of greater equality—more people come into the group, but at its lower limit and thus depress the mean. It is possible that such a movement has occurred in the possession of capital. There have probably

[1] *Cf.* Reddaway, *The Changed Distribution of Purchasing Power*. London and Cambridge Economic Service. Bulletin, Vol. XXVII. May 1949, p. 52.

DIAGRAM

THE DISTRIBUTION OF CAPITAL IN 1936-38 AND 1946–47

Table XV. (Part II)



The 'Gini' coefficients are 0.90 for 1936-38 and 0.86 for 1946-47.

been substantial War Savings in the lower income groups and among people such as small traders who have benefited from the war and the period immediately afterwards. Again, taxation policy has made it impossible for the rich to save. These two factors probably account at least in part for the greater ' equality '[1] in the distribution of property as compared with pre-war years. Table XVII shows that similar movements probably took place in Scotland as well.

The above analysis confirms the conclusion of Part I that a very important social development is proceding and that a *levelling up* process is taking place in the distribution of private wealth.

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[1] Equality, *i.e.* lower mean capital in each capital group.

TABLE XVI

Estimated Mean Capital in Pounds in each Capital Group

(Figures relate to Persons aged 25 and over)

England and Wales

	1911–13	1924–30	1936–38	1946–47
£100 or less	34	40	47	60
£100—£1000	381	423	450	343
£1,000—£5,000	2425	2522	2308	2128
£5,000—£10,000	7816	7924	7473	7204
£10,000—£25,000	16298	17427	16411	15904
£25,000—£100,000	46755	48554	46465	44170
Over £100,000	263091	322380	278821	247594
All	347	645	694	872

TABLE XVII

Estimated Mean Capital in Pounds in each Capital Group

(Figures relate to persons aged 25 and over)

Scotland

	1936–38	1946–47
£100 or less	47	60
£100—£1,000	393	405
£1,000—£5,000	2703	2432
£5,000—£10,000	8000	8433
£10,000—£25,000	12409	15893
£25,000—£100,000	60500	51182
Over £100,000	336000	414616
All	780	952

Correction of Capital Estimates 1946 *and* 1947 *for Price Changes since* 1938

The true extent of the change in the distribution of capital in private hands since 1938 is concealed by the change in prices that has taken place since that date. It is, however, difficult to find a suitable price index to deflate the 1946–1947 estimates as an index of the prices of capital goods does not exist. Indices of the price rise of a few broad groups of capital items are available—British Government securities, industrial stocks and shares and household goods. These items formed 61 per cent of the total property in private hands in 1938 and 59 per cent in 1947. It is possible to calculate indirectly an estimate of the price rise of house property, business premises and trade assets, if such property is thought of as the equivalent of so many hours of labour, tons of steel and so on. This means that an estimate of the price rise of capital in private hands can be made for 76 per cent of the total property in 1947. The price factor for 1947 indicated by these calculations is 1.60.[1] If the estimates are deflated by this factor it is found that the real capital in each group in 1947 is lower than that of 1938. It is probable that war time losses had not been made good by 1947. Another index which has been used in deflating capital estimates is an index of building costs and the export prices of metal goods.[1] This index gives a price factor of 1.66 and the deflated estimates are slightly lower than the previous ones. (See Table XVIII). It can be seen from Table XVIII that even in real terms an increased equality in the distribution of private wealth had occurred by 1947. In 1938, 44.5 of the total capital was owned by persons with less than £10,000, at 1938 prices, in 1947 this percentage was 48 per cent.

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[1] *Vide.* Appendix 1.

Alternative methods have been evolved by other writers for use in deflating wealth estimates. It has been suggested[2] that in order to take account of the effect of changes in the prices of wealth items upon the distribution of wealth, the estimates should be deflated by an index of the prices of consumption commodities and services purchased by the owners of wealth. It is presumed that wealth is desired by individuals not for its own sake but either because it yields an income or because it may be used to finance consumption in the future.

The use of an index of consumption commodities involves the arbitrary assumption of some bill of commodities and services for which wealth actually owned might hypothetically be exchanged by the individual owner. It would appear[3] that the rise in consumer prices which is implicit in the National Income White Paper[4] calculation is the best indicator of the change in net purchasing power in real terms. These calculations show a price factor of 1.69 for 1947.

If the 1938 limits of the capital groups are multiplied by 1.69 a broad idea is given of how much money was needed in 1947, to give the same purchasing power. In order to be strictly accurate a different price factor ought to be

TABLE XVIII

The Distribution of Capital in 1946–47 in terms of the 1938 Price Level
(*Figures relate to persons aged 25 and over*)

	Price Factor 1.60		Price factor 1.66	1938 estimates	
	£m.	%		£m.	%
£100 or less	631	4.15	600	892	5.10
£100—£1,000	1668	10.98	1600	2092	12.00
£1,000—£5,000	3279	21.58	3100	3030	17.40
£5,000—£10,000	1724	11.35	1660	1745	10.00
£10,000—£25,000	2495	16.42	2400	2535	14.40
£25,000—£100,000	2912	19.17	2800	3299	18.80
Over £100,000	2475	16.29	2380	3903	22.30
Total	15188	100.00	14600	17498	100.00

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[1] Such an index was used by Professor E. A. G. Robinson in connection with estimates of fixed capital formation at home. *Vide*. London and Cambridge Economic Service BULLETIN, May, 1950, p. 42. (The index used above was weighted in the proportion of the value of building output to the value of metal exports in 1947).

[2] M. A. Copeland and E. M. Martin. *The Correction of Wealth and Income Estimates for Price changes*. Studies in Income and Wealth, Vol. 2, 1938. National Bureau of Economic Research, p. 99.

[3] W. B. Reddaway. *The Changed Distribution of Purchasing Power*. London and Cambridge Economic Service. BULLETIN II, Vol. XXVII, May 1949, p. 52.

[4] National Income and Expenditure of the U.K. 1947, Cmd. 7371, p. 41.

used for each capital group, but available statistics do not permit such calculations. If the lowest limit of the capital groups in 1938 is multiplied by 1.69 the lowest limit of the capital groups in real terms in 1947 becomes £169, the next limit moves from £1,000 to £1,000 × 1.69, that is £1,690, the next from £5,000 to £5,000 × 1.69, or about £8,450, and so on.

These new limits give the approximate net equivalent in 1947 of the 1938 limits of the capital groups. A process of interpolation[1] enables one to say how many persons are in such capital groups and how much of the total capital they possess. The results are shown in Table XIX.

TABLE XIX
ENGLAND AND WALES

Distribution of Capital in Private Hands in 1936–1938 and in 1946–47 in Terms of the Same Purchasing Power

(Figures relate to persons over 25 only)

Approximate Capital Group		*Number of Persons (000's)*		*Amount of Capital* £ million	
1936–38	1946–47	1936–38	1946–47	1936–38	1946–47
Under £100	Under £169	18780	17461.5	892	1214
£100—£1,000	£169—£1,690	4645	7617	2093	3384
£1,000—£5,000	£1,690—£8,450	1313	2304	3031	6261
£5,000—£10,000	£8,450—£16,900	234	227	1745	2690
£10,000—£25,000	£16,900—£42,250	155	163.5	2536	3217
£25,000—£100,000	£42,250—£169,000	71	82	3299	3881
Over £100,000	Over £169,000	14	15	3903	3655
		25212	27870	17499	24300
		Percentages		*Percentages*	
Under £100	Under £169	74.50	62.63	5.10	5.00
£100—£1,000	£169—£1,690	18.50	27.31	22.00	14.00
£1,000—£5,000	£1,690—£8,450	5.20	8.30	17.40	25.70
£5,000—£10,000	£8,450—£16,900	0.90	0.82	10.00	11.00
£10,000—£25,000	£16,900—£42,250	0.62	0.59	14.40	13.20
£25,000—£100,000	£42,250—£169,000	0.22	0.30	18.80	16.00
Over £100,000	Over £169,000	0.06	0.05	22.30	15.10
		100.00	100.00	100.00	100.00

In 1946–1947 the number of people in the capital groups equivalent to those of 1936–1938 has increased considerably—but the increase in real terms is slightly less than that shown in monetary terms. (See Tables XV and XVI, Part I). The increase in the number of persons with more than the equivalent of £100 fell from 39 per cent to 37 per cent of the total (from 11,000,000 to 10,408,000). The increase from 1936–38 is, however, still substantial from 6,400,000, that is 25 per cent of the total number of people. The distribution of total capital in real terms is perhaps of greater interest than the numbers in the various groups.

Table XIX shows that the amount of capital owned by persons with less than £100 at 1938 prices in 1947 remained approximately the same percentage of the total as in 1938. It is, however, noticeable that the percentage of total capital owned by persons with between £100 and £10,000 increased from 39 per cent to 51 per cent, while that owned by persons with more than £10,000 decreased from 56 per cent to 44.3 per cent of the total capital. This table should be compared with Tables XIV and XV which shows that in money terms the total capital owned by persons with between £100–£10,000 increased from 39 per cent in 1938 to 44.0 per cent in 1947 while that owned by persons with more than £10,000 decreased from 56 per cent to 52.0 per cent. It would thus appear that capital was less unequally distributed in 1947 than in 1938 even when the real purchasing power of the capital is considered.

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[1] The validity of this procedure is to some extent vitiated by the fact that the distribution of capital holdings within each group is skewed. (See Table XVI).

KATHLEEN M. LANGLEY.

APPENDIX I

Index of Capital Items

	Price 1938	*Price 1947*	*Weights 1938*[3]	*Weights 1947*[3]
British Government Securities				
Average price of 2 per cent Consols[1] ...	100	131	21	16
Index of Fixed Interest Securities[2] ...	100	110	7	4
Stocks and Shares : Industrials[2]... ...	100	145	32	36
Household Goods[2]	100	219	1.4	3
Av. of weekly wage rates and prices of raw materials[2]	100	233	16.3	16.7

Laspeyre Index Number

$$\frac{\Sigma P_1Q_0}{\Sigma P_0Q_0} = 158.$$

Paasche Index Number

$$\frac{\Sigma P_1Q_1}{\Sigma P_0Q_1} = 162.5.$$

Ideal Index Number. (Fisher)

$$\sqrt{\frac{\Sigma P_1Q_0}{\Sigma P_0Q_0} \times \frac{\Sigma P_1Q_1}{\Sigma P_0Q_1}} = 160.2.$$

[1] Actuaries Investment Index.

[2] London and Cambridge Economic Service.

[3] Weights are the proportions that the items form of the total property in private hands.

APPENDIX II

THE NATIONAL CAPITAL 1936–38 AND 1946–47

It is possible from the previous calculations to estimate the value of the national capital. Estimates of national capital based on the multiplier or Mallet method relate only to property owned by private persons individually and capable of absolute individual disposal. No correction has been possible in the estimates for under-valuation, evasion or exemption from payment of estate duties except on account of settled property and gifts for national purposes.

The value of settled property excluded from the estate duty returns has been taken as proportionally the same as for 1926–1928, that is, 4.3–6.5 per cent of the total. The amount of capital to be multiplied is thus £20–£45 millions in 1937–38 for England and Wales and £3–£3½ millions for Scotland, and in 1946–47, £30–£55 millions for England and Wales and £4–£7millions for Scotland.

Settled property is likely to be left by older people with large estates, and especially by females. Campion[1] found that in 1924 and 1925 forty-eight per cent of the value of settled property belonged to females, and in default of other reliable estimates the percentage has been taken to be typical of 1936-47. Campion[2] also suggested that the average multiplier for settled property, as such property is owned by the very rich, might be higher than for other property passing at death. He, therefore, used mortality rates for settled property which were even below those of social mortality rates. In view of this consideration[1] the multiplier for settled property in the periods under review has been based on social mortality rates, which have been obtained by taking the means of the differences between social and general mortality rates used by Campion from the appropriate general mortality rates. Additions have thus been made to the final total of the value of private property over £100 in 1936–38 of £719–£1,617 millions for settled property in England and Wales and of £90–£125 millions for such property in Scotland. In 1946–1947, additions were made of £1,000–£1,880 millions for England and Wales and of £140–£240 millions for settled property in Scotland.

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[1] Campion, *op. cit.*, p. 18. [2] Campion, *loc. cit.*

Table XX shows the composition of the National Capital in 1936–38 and 1946–47 as revealed by previous calculations made in this paper.

TABLE XX

Estimated Value of Property in Private Hands in Great Britain 1936–38

	£ million
Value of Property over £100	
England and Wales...	16,224 —17,700
Scotland	1,779 — 2,358
Settled Property	
England and Wales...	719 — 1,617
Scotland	90 — 125
Funeral Expenses and Gifts to Nation ...	2.5— 3
Value of Property less than £100	
England and Wales...	783 — 1,252
Scotland	119 — 122
Total	19,716.5—23,177

Estimated Value of Property in Private Hands in Great Britain in 1946 and 1947

	£ million
Value of Property over £100	
England and Wales...	21,540—26,118
Scotland	2,555— 3,017
Settled Property ...	
England and Wales...	1,013— 1,880
Scotland	138— 242
Funeral Expenses and Gifts to Nation ...	3— 3
Value of Property less than £100	
England and Wales...	990— 1,032
Scotland	118— 125
Total	26,357—32,417

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[1] Campion's treatment of settled property can be questioned. A large proportion of the settled property exempted from estate duty is in the hands of aged widows and this would suggest a low multiplier reflecting a high mortality.

THE BALANCE OF PAYMENTS AND DOMESTIC ECONOMIC POLICY

1. THE CHANGING BALANCE

The changes in the balance of Britain's international payments in the first half of 1950 shown in the recent White Paper[1] constitute a major event in our post-war economic development. The impression which had already been conveyed by the rapid improvement in gold and dollar reserves amounting to £505m. (at $2.80 to the £) between September 18th, 1949, and September 1950 is confirmed. For the first time since before the Great Depression of 1929–33 a favourable overall balance at an annual rate of over £100m. is recorded. The balance of visible trade in the first half of 1950 shows a continued worsening in comparison with 1949 which is, however, much more than offset by the improvement in invisible income.

	Visible Balance	*Invisible Balance £m*	*Current Overall balance*	*Gold reserve*
1949 1st half	— 43	+ 59	+16	— 51
2nd half	—104	+ 50	—54	+ 48
1950 1st half	—108	+160	+58	+262
3rd quarter				+119

The shock effect of devaluation seems to have had the expected result of worsening the balance of trade. Since June 1950 however the visible balance has shown continuous and rapid improvement. If the current trend continues it is probable that an actual surplus on current visible account has been achieved on the f.o.b. basis which underlies the balance of payments statistics. Not since the early 1870's has a comparable position been attained.[2]

The response, under favourable circumstances, of the pattern of the British balance of payments to changing conditions remains remarkable. The improvement since last year must be of the order of magnitude of £300—350m. If we take into account the continued buoyancy of invisible incomes there can be little doubt that the total (visible and invisible) current surplus in the balance of payments attained in the second half of 1950 an annual rate of somewhere between £300–400m. This is a staggering figure, which must be (and has not yet been) taken into consideration in framing economic policy.

The *dollar* balance has shown the same development:

U.K. Balance of Payments with Dollar Area

	Visible	*Invisible*	*Total*	*Grants, etc.*
		£m		
1949 1st half	—111	—31	—142	94
2nd half	—140	—20	—160	150
1950 1st half	— 71	+19	— 52	146

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[1] U.K. Balance of Payments 1946 to 1950. Cmd. 8065.

[2] Schlote, Entwicklung und Strukturwandlungen des englischen Aussenhandels von 1700 bis zur Gegenwart.

If we take account of Marshall Aid, direct dollar viability with the U.S. has already been achieved. The British statistics moreover seem considerably more unfavourable than the corresponding U.S. figures :

Trade Between U.S. and U.K.

	U.K. Statistics £m			*U.S. Statistics* £m		
	Imports	*Exports*	*Balance*	*Imports*	*Exports*	*Balance*
1949 July	20.6	3.8	—16.8	5.4	18.0	+12.6
August ...	14.7	3.3	—11.4	5.7	19.0	+13.2
September ...	16.3	4.1	—12.2	7.4	19.7	+11.3
October ...	21.4	5.6	—15.8	6.7	20.0	+13.2
November ...	18.3	7.3	—11.0	8.1	15.2	+ 7.1
December ...	18.8	7.2	—11.6	7.6	19.6	+12.0
1950 January ...	17.7	6.9	—10.8	6.5	10.4	+ 3.9
February ...	15.6	6.3	— 9.3	6.4	20.0	+13.6
March ...	10.0	7.0	—13.0	7.5	19.5	+12.0
April ...	18.8	5.6	—13.2	6.5	18.8	+11.3
May	19.6	8.2	—11.4	8.5	10.7	+ 1.9
June	12.7	8.0	— 4.7	9.7	8.7	— 1.0
July	10.7	11.3	+ 0.6	10.2	5.5	— 1.7
August ...	14.9	11.0	— 3.9	—	—	—
September ...	18.3	10.4	— 7.9	—	—	—

The U.S. balance of *payments* statistics are also more favourable to Britain than their British counterpart :

U.S. Balance of payments with U.K.[1] ($m)

	Balance on goods and Services	*Unilateral Transfers*	*Total*
1949 3rd quarter	+72	—257	—185
4th quarter	+60	—231	—171
1950 1st quarter	+58	—199	—141
2nd quarter	—31	—222	—253

[1] The signs in this table—giving U.S. figures—are the opposite of the U.K. balance of payments figures.

It seems that the discrepancy between the statistics mainly arises out of the divergence in the distribution of the debits for certain services and oil trade between this country and the rest of the Sterling Area in the two statistical compilations. The British figures are more unfavourable to the United Kingdom. The bias against the U.K. in British statistics might be explained by the effort of the Bank of England to stress the value of the existence of the Sterling Area for the balance of payments position of the whole. The more favourable the dollar balance of the rest of the Sterling Area the greater the justification for their present policy of ‘ maintaining Sterling as an international currency ’ and leaving capital movements within the Sterling Area uncontrolled. Thus we might presume that the U.S. statistics give a more faithful picture of the position.

The improvement of the British balance of payments with the U.S. came about mainly as a result of the fall of U.S. exports : in June 1950 they amounted to $24m. as against $78m in the year before. British exports to U.S. increased form $15m. to $29m. in the same period thus resulting in a favourable visible balance of $5m.

The change in the balance of payments of the rest of the sterling area was not less marked.

*Dollar Balance of the U.S.A.**

$m

	U.S. Statistics			*U.K. Statistics*
	Exports	*Imports*	*Balance*	
1949 1st half	—	—	—	—261
2nd half	—633	+444	—189	—143
1950 1st half	—540	+619	+ 79	+182

*The signs in the U.S. statistics have been inverted.

The current visible account of this country is now calculated on the basis of the *change of ownership*. An important change has taken place from the basis adopted in the last few years when the statistics were reflecting *actual payments* for goods and services rather than the rendering of the service itself, or the delivery of goods. Thus the comparison of this years' account with those of past years reveals how great a part the change in the speculative position has played in the improvement. If the difference between the figures now published and those made available last year is great this would show that the bearishness and bullishness about sterling resulted in wide fluctuations in the lag with which payments are made to and from this country. In that case the improvement might be due to the fact that importers were postponing payments and exporters received foreign currency in anticipation of a revaluation of sterling. This however is not the case according to British statistics. As the period covered (2nd half of 1949) witnessed a remarkable turn-round of the speculative position the figures are not altogether conclusive:[1] offsetting changes might well have occurred within the period. But the difference between the two sets of figures is so small as to be somewhat suspicious. The Bank of England does not seem to have succeeded in improving the coverage and accuracy of its compilations despite the change in method. The differences between the figures of the two White Papers are given in the Table overleaf.

Another improvement in the newest White Paper is represented by a segregation of capital transactions in the items ' Government ' and ' other transactions (net) ' which hitherto had given an exaggerated picture of the British deficit. The most important items clearly brought out are oil investments, which, according to these indications, have been of the order of magnitude of some £200m. since the war. Moreover the real burden of Government payments (mainly military) is established for the immediate post-war years : £251m. for 1946 and £359m. for 1947. The balance of

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[1] The European clearing figures are available monthly. In the 3rd quarter up to September 19th, 1949, Britain lost $394m. From September, 1949, she recovered $120m. and in the first quarter of 1950 another $219m., thus almost balancing the earlier losses. Cf. The BULLETIN, 1950, p. 300.

TABLE

Changes in Balance of Payments White Paper Cmd. 8065 (*October* 1950) *compared to Cmd.* 7928 (*April* 1950)

United Kingdom Current Account

(A + sign indicates that the new paper is more favourable to the U.K.)

	1946	1947	1948	1949 1st half	1949 2nd half
U.P. current account	+22	+42	+25	+31	+1
Composed as follows—					
Other (net)	+31	+70	+46	+20	—7
Payments					
Food	+19	—21	—12	—1	—5
Raw Materials	+27	+14	+14	+11	+10
Others Imports*	—22	—25	—22	—6	—4
Interest, profit	+1	+4	+7	+3	+4
Migrants funds, legacies, private, gifts	+15	—46	—44	—18	—13
Government	—80	...	+7	+12	—7
Receipts					
Exports and Re-Exports ...	+19	+42	+29	+10	+18
Shipping	+11	+4	...	+1	+2

*Part of the change in this item is explicable by a change in definition.

current transactions for these two years was £609m. Thus in the absence of Government expenditure abroad the British balance of payments would only have shown a deficit of £20m.—a trivial amount.

This shows even more conclusively than statistics available earlier that the huge deficiency in the U.K. balance of payments in the immediate post-war years was not so much due to the indirect consequences on international transactions of the domestic monetary policy, *i.e.* overspending and inflation, but directly to Government expenditure abroad.

2. THE OVERALL PICTURE

The timing of the improvement in our balance of payments was as important as its extent. It occurred already *before* the Korean crisis. It must have been considerably accelerated since.

An earlier analysis of foreign trade and payments statistics of the U.S.A. and some European countries[1] suggested some interesting conclusions :

(1) 'The fall in U.S. imports in the 2nd quarter (of 1949), though general, was severest in the case of raw materials and products in which the U.S. is highly competitive : (engineering and vehicles).

(2) 'U.S. exports fell away more rapidly (in the middle of 1949) than the exports of European countries.

(3) 'European exports to third countries did not suffer seriously (in the middle 1949), except in the case of South Africa, and showed recovery already before devaluation.

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[1] Cf. my article, The crisis of the Marshall Plan. Finanzarchiv. Tübingen 1950, p. 221.

(4) ' The fall of European and especially U.K. exports can be explained by reference to the anticipation of devaluation, to the fall in U.S. stocks and purchases and by restrictions due to general (as contrasted with dollar) balance of payments difficulties of third countries.

(5) ' There was as yet no indication that the recovery in the value (as against the volume) of U.S. imports is greater than can be explained by the reversal of the recession in business activity, mainly due to the end of the destocking movement and the successful conclusion of the speculative withholding of purchases from the devaluing countries.'

Since then the recovery in the U.S. proceeded apace and lately, as the Korean incident unfolded, assumed the proportions of an inflationary rearmament boom. An analysis of the U.S. statistics shows that the ' effectiveness ' of the devaluation of the European currencies is mainly due to this overwhelming factor. Indeed one might maintain that the readjustment of balances of payments was affected *despite* rather than *as a result* of devaluation.

1. Commentators in this country mainly stress the fact that though the United Kingdom was able to reduce its deficit with the dollar area from £318 millions in 1948 (or $1286 millions) and £283 millions ($1088 millions) in 1949 to £39 millions ($108 millions) it was not able to wipe out the deficit; the net surplus of £78 millions ($220 million) of the Sterling Area as a whole was achieved merely as a result of the surplus of the rest of the sterling area with the dollar area of not less than £118 millions ($331 millions). It is therefore suggested that the balance of payments crisis of U.K. continues and has assumed the new form of a crisis of our relations with the sterling area.

This view, which was very forcibly expressed by ' The Economist ', has little to support it. Even apart from the statistical uncertainty about the correct allocation of certain current items which has already been discussed, the *increase* in the gold and dollar *reserves* was *greater* than in the net *borrowing* from the sterling area.

If we take the E.R.P. grants to the sterling area into account, amounting to £152 millions, our net deficit with the dollar area is transformed into a surplus of almost £100 millions. *It is this figure, moreover, which should really govern our policy* as our dollar receipts do not consist of only our exports but also of the unilateral transfers by America. Looking at our position in this way a very different conclusion suggests itself from those which received such publicity. It appears that we have used Marshall Aid and incurred liability to the sterling area on which interest is payable to build up gold reserves. As we shall argue below, the wisdom of this policy was questionable.

2. The U.S. terms of trade, far from showing an improvement which could have been expected, *worsened* considerably :

Unit Value and Volume of U.S. Foreign Trade

	Imports *Unit Value*	*Exports* *Unit Value*	*Terms of Trade*	*Volume* *Imports*	*Volume* *Exports*
June 1949	100	100	100	100	100
July	99	98	98	87	83
August	98	98	99	99	82
September	99	98	98	101	84
October	99	95	96	107	81
November	98	95	97	115	80
December	98	96	97	114	89
January 1950	99	95	96	118	70
February	101	94	93	110	74
March	102	94	92	122	83
April	102	94	91	105	78
May	102	92	89	121	81

A change in the basis of these statistics does not permit a later comparison. It is clear, however, not merely that the trend in the terms of trade continued,[1] but that export prices have shown some recovery from their low point. The wholesale prices of manufactures (the main exports competing with Europe in third markets) after falling from 150.1 (1926=100) in September 1949, before devaluation, to 147.9 in December had recovered to 152.24 in May and rose to 161.0 in August 1950. If business conditions in U.S. had not improved, American prices would have been reduced further to meet the threat of increased European competitive power and direct measures taken to prevent an increase of imports from Europe. A comparison of the volume and of the unit value of U.S. exports and imports shows that both exports and imports show an increase despite the rise in prices which can only be explained by changes in national income, and speculative movements reinforcing them.

3. Conversely the improvement in the balance of trade of the U.K. with America was most marked in the case of raw materials and metals. The exports of wool almost quadrupled (*i.e.* from a monthly average of £184,000 in 1949 to £738,000 in July 1950, the latest month for which detailed figures are available). The increase in the exports of non-ferrous metals was equally spectacular, from £339,000 to £2,556,000 respectively. The rise in the exports of woollen yarns and manufactures has a similar significance. In all these cases British exports represented abnormal shipments of valuable raw materials and semi-manufactures in a rising market : the stocks of these products are low and falling in this country.

The most severe fall in imports from the U.S. was in respect of tobacco, raw-cotton, oils and fats. In all these cases *some* redirection of imports to

[1]

	Exports of U.S. Merchandise.	*Imports for consumption*
	Unit values (1936=100)	
March 1950	176	225
April	175	227
May	173	226
June	175	232
July	176	241

Source : Survey of Current Business, October 1950.

other areas was no doubt possible. But it is evident that the favourable balance was achieved by cutting imports without reducing consumption. To that extent our stocks have further fallen. It is questionable whether the accumulation of large surpluses at this cost is reasonable. The argument that raw-materials could not be procured at any price is true only to a limited extent (*e.g.* U.S. cotton). In most other critical commodities the reluctance of the Government to maintain supplies and recoup the increased cost through higher export prices was the main reason.

Thus devaluation can hardly account for the improvement of one balance of trade with the U.S. The price of these commodities has since risen sharply. Thus the reconstitution of stocks will curtail severe losses. The fall in stocks is made even less comprehensible by the fact that Britain is far more vulnerable than the U.S. to air and undersea attacks. Moreover the rapid rise in gold reserves to which the running down of stocks contributed has been the main reason for the suspension of Marshall Aid to this country which might have been avoided by a policy of resolutely increasing stocks (and/or consumption and investment targets).

4. In third markets European countries gained important advantages. According to the E.C.E.[1] U.S. exports declined by 14 per cent between April/September 1949 and the second quarter of 1950.[2] Western European exports on the contrary increased by almost 25 per cent. But the increase was most marked in inter-European exports and those to the U.S. Both these categories have been affected by special circumstances (the latter especially by speculative covering and raw material stock piling) and influenced by direct (discriminatory commercial and payments restrictions) measures. Thus the influence of devaluation, pure and simple, was much less than suggested by the trade figures. The improvement in the reserve was, moreover significantly greater than indicated by the trade position. The change in the speculative position and the reversal of (illegal) capital flows must account for much of the improvement.

3. Internal Implications

The improvement of the U.K. balance of payments by roughly £4–500 m.p.a. between last year and this autumn was made despite a 23 per cent worsening of the terms of trade. This is equivalent to the loss of about 4.5 per cent of the national income. It is fortunate that a rapid rise in invisible income from abroad, reduced this loss by some £200–300m. Thus the net transfer loss (which, it should be remembered, is additional to the loss of the supply of goods implied in the change of the balance of trade) has been reduced to perhaps £100–200m. Nevertheless the net inflationary effect—the decline in the supply of goods—was of the order of magnitude of £450–550m.

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[1] Economic Bulletin for Europe, 2nd quarter 1950, Vol. 2, No. 2, p. 2.

[2] A large part of the fall occurred prior to devaluation within the first period. It is interesting to note that there was an over 5 per cent recovery between the first and second quarters of 1950.

A large majority of economists have been tireless in predicting a violent demand inflation—even without this additional burden suddenly thrown on to the economic system. In point of fact no sign of demand inflation could be found until recently. The number of unfilled vacancies has fallen from some 450,000 in the summer of 1949 to 359,000 at the end of September 1950. While import prices have increased from 110 (1947 = 100) in September 1949 to 143 in October 1950 or some 30 per cent and raw-material prices from 118 to 175 or almost 50 per cent, the increase in export prices was from 113 to 123 and of metal goods only from 114 to 120 in the same period. Even wholesale prices, which are unrepresentatively volatile and dependent on import prices, increased by 18 per cent only. The conclusion seems inevitable that the British entrepreneur not merely did not charge what the ' traffic could bear ' in his export price policy but probably absorbed part of the rise in his raw-material costs. Only the exceptionally rapid rate of increase in the national productivity combined with a stability of wages could have enabled this accomplishment. Real consumption or investment was not reduced, though the distribution of the former was inevitably made less even. Profits in export trades have increased even if they did not increase as much as they could have. But the change in our foreign position absorbed all but the whole of the increase in physical productivity.

Rearmament and a further worsening of the terms of trade will continue to burden any increase in the national income. And the readjustments in production necessitated by the former will in all probability slow down the increase in productivity.

Before, however, further sacrifice is exacted from the country it should be remembered that the balance of payments at the moment shows a very large surplus, even excluding Marshall Aid. Unfortunately the suspension of Marshall Aid and the extreme instability of the world economic position limits the scope of domestic remedial measures : still there is no reason for continuing the excess of exports at the present rate.

1. The import of food and raw-materials should be immediately and decisively speeded up to reconstitute stocks. At least £200m. should be devoted to this task. Further accumulation of gold would only lead to recurrent demands for a lifting of discriminating quantitative controls on dollar imports before our basic economic position is really consolidated.[1] In view of the international political outlook the establishment of stocks is in any case urgently required. Britain is far more vulnerable than the U.S. to air and under-sea attack.

2. While the export-drive should remain intense in potentially vulnerable markets (*e.g.* Canada, South America), there is no possible justification for a further increase of our export surplus to Europe. Many of the goods now sent *e.g.* to Germany would find a good market at home and lessen the

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[1] The recent increase in tourist allowances are a case in point. Instead of increasing wages or buying necessities abroad the export surplus leads to a relaxation of restrictions on unessential expenditure.

possibility of an inflationary pressure finally emerging out of rearmament. A net decrease of exports (or increase in imports) of some £100–200m. can be managed by running down the export surplus. This would still leave £100m. for essential foreign investment. *In addition* we could reduce the grave burden threatening through the further increase in import prices by measures turning the terms of trade in our favour, through a countervailing increase in export prices.

3. A revaluation of the £ would help in this respect. There are two powerful arguments against it:

(*a*) it would give undue profits to exchange speculators who have succeeded in increasing their sterling balances substantially.

(*b*) It is too general a measure to avoid prejudicing the expansion of export, in some important markets while in others it might not hold back exports sufficiently.

The position of gold industry would be seriously weakened if the appreciation of sterling were to be managed by a cut in the sterling price of gold rather than by an increase of its price in dollars. Unfortunately the latter is at present unlikely.

4. An increase in wages would represent an alternative means of improving the terms of trade. It might be preferred to a revaluation as it could, at least theoretically, be more discriminating. There are many difficulties. Only wage-increases embodied in goods which are exported are ' self-financing '. Thus only a selective increase in wages would be possible, if we assume that the whole of the increase in productivity must be reserved to carry rearmament. Unfortunately no machinery exists to carry out this policy.[1] If, however, rearmament can be limited to £300m., and if it could be managed without a great fall in the rate of increase of productivity, so that an increase of some £400–500m. in national income could be assumed for next year, a five per cent average increase in wages would nevertheless be possible. This is less advantageous than a selective wage increase. But from a national point of view it is preferable to none. This rate of increase of the national income is just over half of that experienced in the current year.[2]

The same results could be attained (and would to a large extent be attained had perfect competition prevailed in export markets) by an increase in prices alone. The fact that British prices increased so little, if at all is an eloquent demonstration of the imperfection of these markets. Entrepreneurs wished to increase goodwill rather than profits. The conclusion seems inevitable that a much closer control of the destination and volume of exports and some supervision of price policies seems required if serious losses to Britain through unduly unfavourable terms of trade are to be avoided.

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[1] Cf. A. Flanders, 'Wages Policy and Full Employment in Britain', Bulletin, July–August 1950.

[2] By the end of the year 1950 it has become clear that rearmament would not be limited to the figure quoted above from the Chancellor's statements. Moreover the struggle for raw-materials has become acute and a coal crisis threatens. Nor seems there to be more willingness on the part of the Administration to institute selective controls and administer them with discrimination. The base period system of allocation, insufficient attention to variation in marginal needs, and general exhortations as a method of administration, all of which was criticised during the late war, seems to prevail again. Under these conditions it would be rash to hope that above assumptions (which might be manageable) will hold.

These are measures on the domestic field. It is obvious, however, that the problems posed by accelerated re-armament call for close co-ordination on the international plane. In particular the clarification of the principles determining the international distribution of the burden of rearmament are urgently needed. This must include not merely armaments but also the help given to the development of poor areas. The failure to agree on an equitable scheme during the last war left behind an immense amount of sterling balances and dollar debt owing by this country.

The allocation of scarce raw-material resources is also required. This necessitates the re-establishment of the combined Raw Materials and Production Boards to allocate raw-materials and secure some international division of labour (within limits set by security considerations). This would certainly reduce the danger of a sharp fall in productivity through lack of specialisation or the emergence of bottlenecks, which would decrease the effectiveness of the common effort.

T. Balogh.